

Holton Public Schools

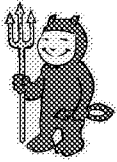
REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Holton Public Schools

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This section of Holton Public School's Annual Financial Report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand Holton Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund, the General Fund and the 2006 Building Capital Projects Fund. The remaining statement, the Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis (this section), (2) the auditor's opinion, (3) the basic financial statements, and (4) the required supplementary information. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

Reporting the School District as a Whole – District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School district's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provided a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of Fiduciary Assets and Liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Since this is the third year the School District has prepared financial statements following GASB Statement No. 34, comparisons to fiscal 2005 are now available. The net assets of the District at June 30, 2006 amounted to approximately \$3.6 million. Table 1 shows a condensed breakdown of the net assets.

Table 1
Condensed Statement of Net Assets

	Governmental Activities <u>June 30, 2006</u>	Governmental Activities <u>June 30, 2005</u>
Current assets	\$ 9,287,081	\$ 3,226,283
Capital assets, net	14,681,404	12,240,281
Other non-current assets	371,619	274,594
Total assets	24,340,104	15,741,158
Current liabilities	4,297,881	2,963,406
Non-current liabilities	16,479,654	9,200,345
Total liabilities	20,777,535	12,183,751
Net assets		
Invested in capital assets, net of related debt	2,465,014	2,862,387
Restricted for debt service	305,304	217,340
Unrestricted	792,251	477,680
Total net assets	\$ 3,562,569	\$ 3,557,407

The largest portion of the District's net assets reflects investment in capital assets (e.g., land, buildings and improvements, fiber optics, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

One significant change affected the Condensed Statement of Net Assets which is the passing of the 2006 Athletic Bond proposal. The District is in the process of constructing a new athletic complex in addition to renovations at the middle and high schools. The entire project is \$7.64 million.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2006. Since this is the third year the School District has prepared financial statements following GASB No. 34, revenue and expense comparison to fiscal year 2005 are now available.

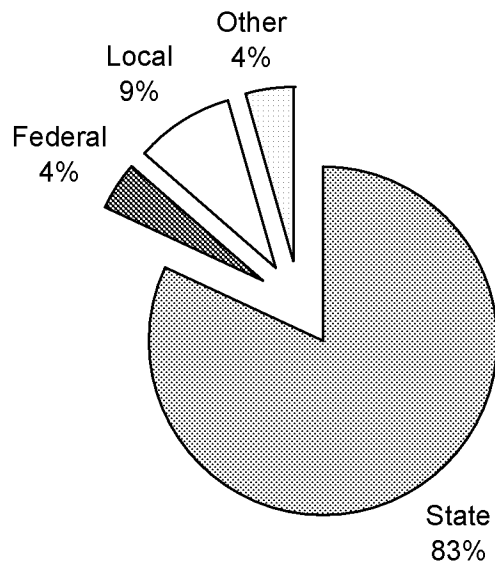
Table 2		
Statement of Activities		
	Governmental Activities June 30, 2006	Governmental Activities June 30, 2005
Revenues		
Program Revenues		
Charges for services	\$ 316,733	\$ 307,166
Operating grants and contributions	1,823,167	1,758,634
General revenues		
Property taxes	1,298,272	1,204,658
Unrestricted grants and contributions	6,700,354	6,720,761
Other	232,715	134,293
Total revenues	10,371,241	10,125,512
Expenses		
Instruction	5,585,122	5,320,607
Support services	3,282,905	3,517,378
Food services	354,276	338,454
Athletics	159,706	150,310
Interest on long-term debt	556,660	476,818
Unallocated depreciation and amortization	427,410	454,031
Total Expenses	10,366,079	10,257,598
Increase (decrease) in net assets	5,162	(132,086)
Net assets at beginning of year	3,557,407	3,689,493
Net assets at end of year	\$ 3,562,569	\$ 3,557,407

The net assets of the District increased by \$5,162 during the 2005/2006 year. The cost of the District's governmental activities for the year was \$10.4 million. Those who benefited from food service, athletic programs, and support services, mostly made up of centralized transportation, paid service charges of \$317 thousand. Operating grants and contributions of \$1.8 million were for programs paid for by other governments and organizations. The other resources were provided with property tax, state pupil foundation allowance (state aid), investment earnings and other miscellaneous revenues.

Changes in the Statement of Activities were minimal. The rate for debt service remained at 5.48 mills for 2005-2006. The rate will increase to 7.0 for the 2006-2007 school year due to the passage of the Athletic Bond proposal establishing a 2006 Capital Projects Fund.

A substantial portion (83%) of the District's revenues is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Table 3 depicts the breakdown of the sources of revenue for the District.

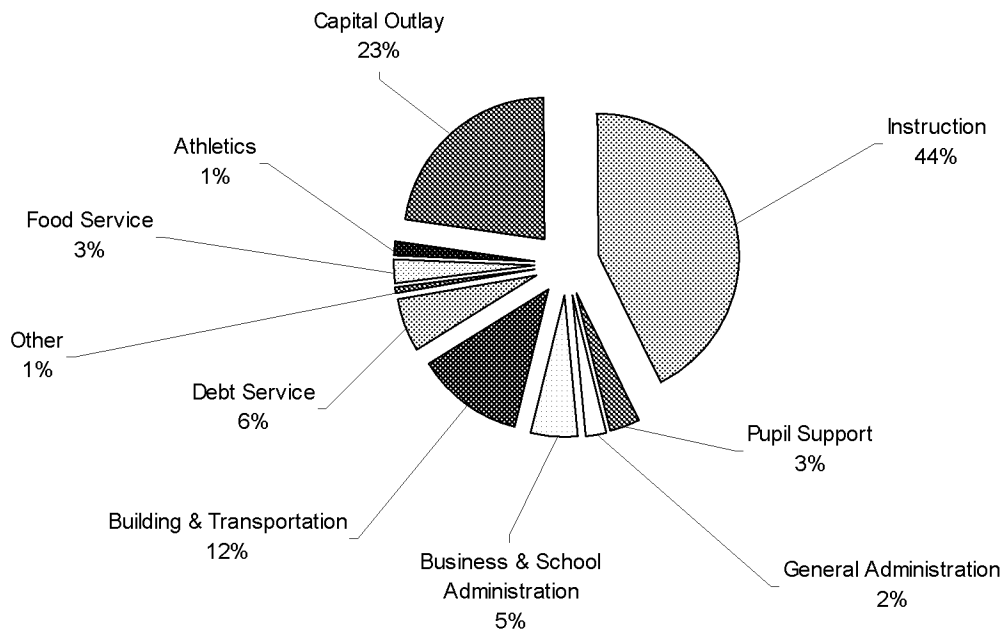
Table 3
Sources of Revenues
for Fiscal Year 2005/2006



As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

As Table 4 depicts, 47% of the District's resources are spent on instruction and pupil support services. Another 7% is spent on administrative and business services necessary to efficiently operate the District, while 12% is spent for transportation and maintenance, including utilities and custodial services. Debt service contributes to 6% of the total budget, which includes principal and interest. Noted this year is the increase in capital outlay up from 1% in 2004-2005 to 23% in 2005-2006. This is the result of the 2006 Athletic Capital Projects Fund. The final 5% is spent on other interest and other support services including athletics and food service.

Table 4
Expenditures for Fiscal year 2005/2006



Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. The general fund equity increased by \$121,314 during the 2005/06 fiscal year, resulting in fund equity of \$627,792 at year end. The primary reasons for the change in fund balance are as follows:

Factors Impacting Operations

Student Enrollment – The student population remained constant at all levels. Enrollment numbers were as predicted with a blended count of 1112 students. The foundation allowance remained as predicted at a rate of \$6,875 per pupil.

Food Service - The food service program for the 2005/2006 school year did not require additional funding from the general fund. Revenues generated from the food service department were greater or equal to the expenditures for the program. For the second year in a row, the food service fund was charged an indirect cost rate to supplement the general fund for operations and maintenance.

Investments – The return on investments was greater than expected for the 2005-2006 school year. This added an additional \$20,000 in revenue.

IDEA Flowthrough – For the first time, Holton received Federal IDEA dollars directly from the ISD. This resulted in an increase of \$14,000 in federal funds.

Insurance – Insurance benefits and expenses were adjusted due to employee changes in job status. The average employee expense for health insurance is \$15,000 annually.

Tax Chargebacks – This district saw an increase in tax chargebacks for the year of \$23,000. The counties continue to work with adjustments in tax reconciliation resulting in an increase in chargebacks to the district.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

Variances between the final budget amounts and actual spending were largely due to the following:

- Purchase of a leveled library for elementary students – increase \$21,000
- Federal Carryover for 2006-2007 – savings \$58,000.
- Reduction in business services – savings \$17,500
- Transportation/Custodial expenditures allocated to proper programs – savings \$92,000.
- Student Services – Special Education billback expenditures increased for services provided by the ISD - increase \$42,000.

Original vs. Amended Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget semi-annually during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was a \$182,000 net change in the total General Fund revenue budget from the beginning to the end of the year. The significant changes in funding sources were as follows:

- The ***local source*** revenue budget increased by \$17,649. This increase was attributed to interest earnings.
- The ***state source*** revenue budget increased by \$54,101. The increase was due to prior year adjustments to state aid and pupil counts.
- The ***federal source*** revenue budget increased by \$60,494. The main reason for the increase was the receipt of an IDEA grant and Title I School Improvement grant.
- The ***other revenue*** budget increased by \$50,510. This increase is primarily due to financing sources for the purchase of a new bus.

Expenditures – The significant changes by functional category are as follows:

- The ***instructional services*** budget decreased by over \$400,000. This decrease was primarily due to the retirement of six staff members, reductions in unemployment costs, and proper insurance allocations. This change also was a result of the realignment of accounting codes for special services.
- The ***pupil support services*** budget had a net increase of \$252,000 due to the realignment of special services such as social workers and speech therapist from instructional services to support services.
- The ***operation/maintenance*** budget had a net increase of \$108,945 mainly due to increased energy costs.

Capital Assets

At June 30, 2006, the School District had \$14,681,404 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$2,441,123 from last year.

	<u>2006</u>	<u>2005</u>
Land	\$ 209,670	\$ 209,670
Construction in progress	2,924,531	139,955
Building and building improvements	11,017,500	11,380,523
Buses and other vehicles, furniture and equipment	<u>529,703</u>	<u>510,128</u>
Total capital assets	\$ <u>14,681,404</u>	\$ <u>12,240,281</u>

Debt

At the end of this year, the School District had \$16,745,874 in bonds outstanding versus \$9,413,001 in the previous year – an increase of \$7.3 million due to the passage of the athletic bond proposal in November 2005. Other obligations include a building improvement loan, land contract, capital lease, and education interconnection and consortium financing agreement. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budget

Our elected officials and administration considered many factors when setting the School District's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2007 budget was adopted in June 2006, based on an estimated number of students that will be enrolled in September 2006. Approximately 83 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006/2007 school year, we anticipate that the fall student count could be slightly higher than the estimate used in creating the 2006/2007 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund \$7,085 per pupil. This reflects a \$210 per pupil increase for the 2006-2007 school year.

The original budget was adopted with an estimated \$200 per pupil increase.

During the spring of 2006, the School District was successful in settling a labor contract with the support staff. The settlement is represented in the budget for the 2006-2007 fiscal year. Unfortunately, the School District was unsuccessful in settling a labor contract with the teachers. The cost of a settlement is unknown at this time. However, a Voluntary Separation Agreement was established in August 2005 and is represented in the 2005-2006 budgets.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Business Department at the Holton Public Schools Administrative Office, Holton, Michigan 49425.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 18, 2006

Board of Education
Holton Public Schools
Holton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holton Public Schools (the School District), as of and for the year ended June 30, 2006, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holton Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Holton Public Schools, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated August 18, 2006 on our consideration of Holton Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - x and page 25, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Holton Public Schools
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 7,479,361
Investments	15,398
Receivables	158,760
Due from other governmental units	1,631,758
Inventories	<u>1,804</u>
Total current assets	9,287,081
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	3,134,201
Depreciable	11,547,203
Bond issuance costs, net	235,344
Note and interest receivable	<u>136,275</u>
Total noncurrent assets	<u>15,053,023</u>
Total assets	24,340,104
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	1,300,000
Accounts payable and accrued liabilities	2,219,161
Due to other governmental units	278,129
Bonds and other obligations, due within one year	<u>500,591</u>
Total current liabilities	4,297,881
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	16,463,353
Accrued interest	<u>16,301</u>
Total noncurrent liabilities	<u>16,479,654</u>
Total liabilities	<u>20,777,535</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,465,014
Restricted for debt service	305,304
Unrestricted	<u>792,251</u>
Total net assets	<u><u>\$ 3,562,569</u></u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

		Program Revenue		Net (Expense)
				Revenue and
				Changes in
				Net Assets
<i>Functions/Programs</i>	<u>Expenses</u>	<u>Charges for</u>	<u>Operating grants</u>	<u>Governmental</u>
		<u>services</u>	<u>and contributions</u>	<u>activities</u>
Governmental activities				
Instruction	\$ 5,585,122	\$ -	\$ 1,140,648	\$ (4,444,474)
Support services	3,282,905	175,314	400,862	(2,706,729)
Food services	354,276	118,891	281,657	46,272
Athletics	159,706	22,528	-	(137,178)
Interest on long-term debt	556,660	-	-	(556,660)
Unallocated depreciation and amortization	427,410	-	-	(427,410)
Total governmental activities	<u>\$ 10,366,079</u>	<u>\$ 316,733</u>	<u>\$ 1,823,167</u>	<u>(8,226,179)</u>
General revenues				
Property taxes levied for				
General purposes				596,152
Debt service				702,120
Grants and contributions not restricted to specific programs				6,700,354
Investment earnings				177,013
Miscellaneous				<u>55,702</u>
Total general revenues				<u>8,231,341</u>
Change in net assets				5,162
Net assets at July 1, 2005				<u>3,557,407</u>
Net assets at June 30, 2006				<u>\$ 3,562,569</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
BALANCE SHEET
Governmental Funds
June 30, 2006

	General Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 1,149,277	\$ 5,822,505	\$ 507,579	\$ 7,479,361
Investments	-	-	15,398	15,398
Receivables	158,760	-	-	158,760
Due from other governmental units	1,588,218	-	43,540	1,631,758
Due from other funds	13,725	-	8,031	21,756
Inventories	-	-	1,804	1,804
Total assets	<u>\$ 2,909,980</u>	<u>\$ 5,822,505</u>	<u>\$ 576,352</u>	<u>\$ 9,308,837</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
State aid loan	\$ 1,300,000	\$ -	\$ -	\$ 1,300,000
Accounts payable	47,882	1,325,694	6,888	1,380,464
Accrued liabilities	656,177	-	-	656,177
Due to other governmental units	278,129	-	-	278,129
Due to other funds	-	-	21,756	21,756
Total liabilities	<u>2,282,188</u>	<u>1,325,694</u>	<u>28,644</u>	<u>3,636,526</u>
Fund balances				
Reserved				
Inventories	-	-	1,804	1,804
Debt service	-	-	503,101	503,101
Capital projects	-	4,496,811	15,398	4,512,209
Unreserved				
Undesignated				
General Fund	627,792	-	-	627,792
School service	-	-	27,405	27,405
Total fund balances	<u>627,792</u>	<u>4,496,811</u>	<u>547,708</u>	<u>5,672,311</u>
Total liabilities and fund balances	<u>\$ 2,909,980</u>	<u>\$ 5,822,505</u>	<u>\$ 576,352</u>	<u>\$ 9,308,837</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
June 30, 2006

Total fund balance—governmental funds \$ 5,672,311

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 20,667,262	
Accumulated depreciation	<u>(5,985,858)</u>	14,681,404

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	263,616	
Accumulated amortization	<u>(28,272)</u>	235,344

Other long-term note and interest receivable in governmental activities is not reported in the
governmental funds.

136,275

Accrued interest in governmental activities is not reported in the governmental funds.

(198,821)

Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

(16,963,944)

Net assets of governmental activities in the Statement of Net Assets

\$ 3,562,569

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 596,152	\$ -	\$ 702,120	\$ 1,298,272
Investment earnings	37,387	121,625	18,001	177,013
Fees and charges	167,660	-	132,293	299,953
Other	57,235	-	9,140	66,375
Total local sources	858,434	121,625	861,554	1,841,613
State sources	7,523,004	-	35,649	7,558,653
Federal sources	401,410	-	260,218	661,628
Total revenues	8,782,848	121,625	1,157,421	10,061,894
EXPENDITURES				
Instruction	5,427,888	-	-	5,427,888
Support services	3,073,024	-	-	3,073,024
Food services	-	-	354,276	354,276
Athletics	-	-	159,706	159,706
Debt service				
Principal	-	-	304,795	304,795
Interest and other charges	-	-	362,672	362,672
Bond issuance costs	-	105,341	-	105,341
Capital projects	-	2,929,646	7,158	2,936,804
Total expenditures	8,500,912	3,034,987	1,188,607	12,724,506
Excess (deficiency) of revenues over (under) expenditures	281,936	(2,913,362)	(31,186)	(2,662,612)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	323,557	-	-	323,557
Loan proceeds	59,893	-	-	59,893
Proceeds on issuance of bonds	-	7,640,000	-	7,640,000
Discount on issuance of bonds	-	(10,215)	-	(10,215)
Transfers in	17,756	-	356,790	374,546
Transfers out	(137,178)	(219,612)	(17,756)	(374,546)
Transfers to other governmental units and other transactions	(424,650)	-	-	(424,650)
Total other financing sources (uses)	(160,622)	7,410,173	339,034	7,588,585
Net change in fund balances	121,314	4,496,811	307,848	4,925,973
Fund balances at July 1, 2005	506,478	-	239,860	746,338
Fund balances at June 30, 2006	\$ 627,792	\$ 4,496,811	\$ 547,708	\$ 5,672,311

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	4,925,973
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (427,410)	
Capital outlay and bond issuance costs	<u>2,958,559</u>	2,531,149

Receipt of principal on note receivable is a revenue in the governmental funds, but the receipt reduces noncurrent assets in the Statement of Net Assets.	(9,795)
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Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not recorded in the governmental funds until received.	16,794
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.	(7,689,678)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	378,222
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(158,012)
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>10,509</u>
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Change in net assets of governmental activities	<u><u>\$ 5,162</u></u>
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The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2006

	Agency funds
ASSETS	
Cash and cash equivalents	\$ <u>74,976</u>
LIABILITIES	
Deposits held for others	\$ <u>74,976</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Holton Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The *2006 Building Capital Projects Fund* accounts for the use of the proceeds from the 2006 School Building and Site bonds. The bonds were approved for issuance on November 8, 2005 and may be used for school building and site purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	17.4794
Debt service funds - Homestead and non-homestead	5.48

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$3,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	25-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Business Manager is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, expenditures exceeded appropriations in the outgoing transfers and other transactions function by \$42,238.

School Bond Construction Compliance

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the capital projects funds from the inception of the funds through June 30, 2006.

	1998 Building Capital Projects Fund	2006 Building Capital Projects Fund
Revenue and bond proceeds	\$ 11,361,307	\$ 7,761,625
Expenditures	11,345,909	3,264,814

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External investment pool	\$ <u>15,398</u>	1	AAAm	<u>100%</u>

The School District voluntarily invests certain excess funds in external investment pools. The investment pool utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external investment pool of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the School District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. In accordance with its investment policy, the School District will minimize credit risk, which is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$7,521,155 of the School District's bank balance of \$7,630,582 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 209,670	\$ -	\$ -	\$ 209,670
Construction in progress	139,955	2,784,576	-	2,924,531
Total capital assets, not being depreciated	349,625	2,784,576	-	3,134,201
Capital assets, being depreciated:				
Buildings and improvements	16,069,296	8,769	-	16,078,065
Equipment	724,490	-	-	724,490
Vehicles	719,905	59,873	49,272	730,506
Total capital assets, being depreciated	17,513,691	68,642	49,272	17,533,061
Less accumulated depreciation:				
Buildings and improvements	4,688,768	371,797	-	5,060,565
Equipment	382,687	7,133	-	389,820
Vehicles	551,580	33,165	49,272	535,473
Total accumulated depreciation	5,623,035	412,095	49,272	5,985,858
Total capital assets, being depreciated, net	11,890,656	(343,453)	-	11,547,203
Capital assets, net	\$ 12,240,281	\$ 2,441,123	\$ -	\$ 14,681,404

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ 158,275	\$ 105,341	\$ -	\$ 263,616
Less accumulated amortization	12,957	15,315	-	28,272
Bond issuance costs, net	\$ 145,318	\$ 90,026	\$ -	\$ 235,344

Amortization

Amortization expense has been charged as unallocated amortization.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 13,725
Other governmental funds	Other governmental funds	<u>8,031</u>
		<u>\$ 21,756</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$137,178 to the Athletics Fund to finance operations.

The Food Service Fund transferred \$17,756 to the General Fund to finance indirect costs.

The 2006 Capital Projects Fund transferred \$219,612 to the 2006 Debt Service Fund to pay for interest expense.

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2006 follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
State aid anticipation note				
2004/2005 1.57% due August 2005	\$ 1,400,000	\$ -	\$ 1,400,000	\$ -
2005/2006 2.92% due August 2006	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
	<u>\$ 1,400,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,300,000</u>

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include capital leases for office equipment, building improvement and school bus loans payable, land contract payable and Education Interconnection and Consortium Financing Agreement.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Governmental activities:					
Bonds	\$ 9,413,001	\$ 7,629,785	\$ 296,912	\$ 16,745,874	\$ 435,259
Other obligations	239,487	59,893	81,310	218,070	65,332
Compensated absences	10,509	-	10,509	-	-
	<u>\$ 9,662,997</u>	<u>\$ 7,689,678</u>	<u>\$ 388,731</u>	<u>\$ 16,963,944</u>	<u>\$ 500,591</u>

In the previous schedule, the additions for other obligations include \$59,893 for a school bus loan.

General obligation bonds consist of the following:

1998 General Obligation Bond partially refunded June 2005; payments ranging from \$300,000 to \$325,000 due May 2007 to 2008; plus interest at 4.5% payable semi-annually	\$ 625,000
2005 Refunding General Obligation Bond payable in annual installments ranging from \$345,000 to \$450,000 due May 2009 to 2028; plus interest ranging from 3.5% to 5% payable semi-annually	8,545,000
Plus issuance premium	125,998
Less deferred amount on refunding	(299,390)
2006 Building and Site Bond payable in annual installments ranging from \$125,000 to \$655,000 due May 2007 to 2030; plus interest ranging from 3.5% to 4.4% payable semi-annually	7,640,000
Less issuance discount	(10,215)

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds—Continued

Durant obligations payable in annual installments ranging from \$10,259 to \$47,807 plus interest at 4.76% due May 2007 to 2013. The School District is only obligated to make annual installments to the extent of annual State of Michigan state school aid appropriations.	\$ <u>119,481</u>
Total bonded debt	16,745,874

Other obligations

Building improvement loan payable in quarterly installments of \$4,865 through July 2006; plus interest at 5.85%	4,865
Land contract payable in semi-annual installments of \$14,270 through January 2007; including interest at 9%	21,168
Capital lease payable in monthly installments of \$1,067 through October 2006; including interest at 6%	4,214
School bus loans payable in aggregate quarterly installments of \$6,408 through May 2011; plus interest ranging from 3.33% to 4.19%	99,245
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,654 due March 2007 to 2013	<u>88,578</u>
Total other obligations	<u>218,070</u>
	<u>\$ 16,963,944</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

The annual requirements of principal and interest to amortize bonded debt and other obligations outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 500,591	\$ 772,192	\$ 1,272,783
2008	502,141	685,492	1,187,633
2009	559,692	681,208	1,240,900
2010	530,118	646,901	1,177,019
2011	548,191	628,626	1,176,817
2012-2016	2,981,818	2,806,326	5,788,144
2017-2021	3,675,000	2,112,645	5,787,645
2022-2026	4,490,000	1,300,110	5,790,110
2027-2030	3,360,000	332,634	3,692,634
	<u>\$ 17,147,551</u>	<u>\$ 9,966,134</u>	<u>\$ 27,113,685</u>

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006, was 16.34 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$753,000, \$768,000, and \$677,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE J—COMMITMENTS AND CONTINGENCIES

Commitments

- **Construction Contracts** – As of June 30, 2006, the School District had awarded construction contracts totaling approximately \$6,239,000 of which \$2,925,000 of expenditures had been incurred. The contracts are the obligations of the 2006 Building Capital Projects Fund .

Contingencies

- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE K—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 85 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

NOTE L—SUBSEQUENT EVENT

On August 18, 2006, the School District received the proceeds of a \$1,550,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2007 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 814,856	\$ 832,505	\$ 858,434	\$ 25,929
State sources	7,469,112	7,523,213	7,523,004	(209)
Federal sources	405,318	465,812	401,410	(64,402)
Incoming transfers and other transactions	358,497	409,007	401,206	(7,801)
Total revenues	9,047,783	9,230,537	9,184,054	(46,483)
EXPENDITURES				
Instruction				
Basic programs	4,118,877	4,080,999	4,037,570	43,429
Added needs	1,887,289	1,432,667	1,390,318	42,349
Support services				
Pupil	79,107	331,970	329,083	2,887
Instructional staff	84,031	136,423	110,475	25,948
General administration	255,078	287,264	273,839	13,425
School administration	431,664	449,424	447,516	1,908
Business	256,105	246,108	228,593	17,515
Operations and maintenance	876,706	985,651	892,932	92,719
Pupil transportation services	618,313	707,379	683,747	23,632
Central	102,358	108,358	106,839	1,519
Outgoing transfers and other transactions	494,727	519,590	561,828	(42,238)
Total expenditures	9,204,255	9,285,833	9,062,740	223,093
Excess (deficiency) of revenues over (under) expenditures	\$ (156,472)	\$ (55,296)	121,314	\$ 176,610
Fund balances at July 1, 2005			506,478	
Fund balances at June 30, 2006			\$ 627,792	

Holton Public Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2006

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 18, 2006

Board of Education
Holton Public Schools
Holton, Michigan

We have audited the financial statements of Holton Public Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting


In planning and performing our audit, we considered Holton Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Holton Public Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as Finding 1 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Holton Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

August 18, 2006

Board of Education
Holton Public Schools
Holton, Michigan

Compliance

We have audited the compliance of Holton Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Holton Public Schools' major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Holton Public Schools' management. Our responsibility is to express an opinion on Holton Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Holton Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Holton Public Schools' compliance with those requirements.

In our opinion, Holton Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Holton Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Holton Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
August 18, 2006
Page 2

Internal Control Over Compliance—Continued

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Holton Public Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated August 18, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Holton Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
U.S. Department of Education									
Passed through Michigan Department of Education									
Title I	84.010								
041550 0405		\$ 3,003	\$ -	\$ 853	\$ 2,150	\$ 853	\$ 3,003	\$ -	
051530 0405		213,881	1,669	1,669	213,881	-	213,881	-	5
051550 0506		55,311	-	55,331	-	55,331	55,331	-	
051550 0506		30,000	-	19,570	-	19,088	19,088	(482)	
061530 0506		210,434	-	176,157	-	205,277	205,277	29,120	
		512,629	1,669	253,580	216,031	280,549	496,580	28,638	
Title V	84.298								
050250 0506		2,454	-	2,454	-	2,454	2,454	-	
050250 0405		4,202	-	3,316	-	3,440	3,440	124	
		6,656	-	5,770	-	5,894	5,894	124	
Technology Literacy Challenge	84.318								
054290 0405		4,445	-	5	4,440	5	4,445	-	
054290 0506		2,399	-	2,399	-	2,399	2,399	-	
054290 0405		4,505	-	4,505	-	4,505	4,505	-	
		11,349	-	6,909	4,440	6,909	11,349	-	
Improving Teacher Quality	84.367								
060520 0506		75,752	-	62,619	-	75,752	75,752	13,133	
		75,752	-	62,619	-	75,752	75,752	13,133	
Total passed through Michigan Department of Education		606,386	1,669	328,878	220,471	369,104	589,575	41,895	
Passed through Muskegon Area Intermediate School District									
Drug Free Schools and Communities Act	84.186								
042860 0506		7,519	-	7,519	-	7,519	7,519	-	
PL 101-476 Flowthrough	84.027								
060450 0506		14,500	-	14,491	-	14,491	14,491	-	
Total passed through Muskegon Area Intermediate School District		22,019	-	22,010	-	22,010	22,010	-	
Total U.S. Department of Education		628,405	1,669	350,888	220,471	391,114	611,585	41,895	

Holton Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Agriculture</i>									
Passed through Michigan Department of Education National School Lunch and Breakfast									
Entitlement Commodities	10.550	\$ 19,211	\$ -	\$ 19,211	\$ -	\$ 19,211	\$ 19,211	\$ -	
Bonus Commodities		3,122	-	3,122	-	3,122	3,122	-	
		22,333	-	22,333	-	22,333	22,333	-	
Child Nutrition Cluster									
051970 Lunch—Breakfast	10.553	33,789	-	3,455	30,334	3,455	33,789	-	3
061970 Lunch—Breakfast		42,940	-	42,940	-	42,940	42,940	-	3
		76,729	-	46,395	30,334	46,395	76,729	-	
051950 All Lunches	10.555	23,887	-	2,955	20,932	2,955	23,887	-	3
061950 All Lunches		25,109	-	25,109	-	25,109	25,109	-	3
051960 Free and Reduced		135,467	-	17,144	118,323	17,144	135,467	-	3
061960 Free and Reduced		146,282	-	146,282	-	146,282	146,282	-	3
		330,745	-	191,490	139,255	191,490	330,745	-	
Total Child Nutrition Cluster		407,474	-	237,885	169,589	237,885	407,474	-	
Total U.S. Department of Agriculture		429,807	-	260,218	169,589	260,218	429,807	-	
<i>U.S. Department of Health and Human Services</i>									
Passed through Muskegon Area Intermediate School District									
Medical Assistance Program Title XIX 393	93.778	6,225	-	6,225	-	6,225	6,225	-	
<i>U.S. Department of Homeland Security</i>									
Passed through Michigan Sate Police Homeland Security Grant	97.004	4,002	-	3,993	-	3,993	3,993	-	
2003 SHSGP, Part II Equipment									
TOTAL FEDERAL ASSISTANCE		\$ 1,068,439	\$ 1,669	\$ 621,324	\$ 390,060	\$ 661,550	\$ 1,051,610	\$ 41,895	

Holton Public Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Child Nutrition Cluster
4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report schedule of expenditures of federal awards.

Revenues from federal sources per June 30, 2006

Governmental funds financial statements

General Fund	\$ 401,410	
Other governmental funds (includes Food Service Fund)	<u>260,218</u>	\$ 661,628

Timing difference in recognizing grant revenue	<u>(78)</u>
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Expenditures per single audit report

Schedule of Expenditures of Federal Awards	<u>\$ 661,550</u>
--	-------------------

5. Accrued revenue as of June 30, 2005 for 05 Title I
was inadvertently not recorded for \$78

Holton Public Schools
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Holton Public Schools.
2. *One (1)* reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This reportable condition is not reported as a material weakness.
3. *No* instances of noncompliance material to the financial statements of Holton Public Schools were disclosed during the audit as reported in Part B of this schedule.
4. There were *no* reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part C of this schedule.
5. The auditors' report on compliance for the major federal award programs for Holton Public Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i> Title I	84.010

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Holton Public Schools was determined to be a low-risk auditee.

Holton Public Schools
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 1: Accounting Department Segregation of Duties

Condition: Individuals within the accounting department have concentration of duties within the cash receipts and cash disbursements function.

Effect: Errors or the misappropriation of funds can go undetected.

Recommendation: Segregation of duties in the accounting department should be strengthened.

Questioned Costs: None

School District Response: The School District has limited opportunities to further segregate duties within the cash receipts and cash disbursements functions. This condition is primarily due to limited staff in this smaller School District and very limited resources currently available to hire additional staff. During the year ending June 30, 2007, School District management will review opportunities to further segregate duties.

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

NONE

REPORTABLE CONDITIONS

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

August 18, 2006

Michigan Department of Education
Lansing, Michigan

Holton Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated September 13, 2005.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Accounting Department Segregation of Duties

Condition: Individuals within the accounting department have concentration of duties within the cash receipts and cash disbursements functions.

Effect: Segregation of duties in the accounting department should be strengthened.

Current status: See Fiscal 2006 Finding No. 1 for similar finding noted during the audit for the year ended June 30, 2006.

Fiscal 2005 Finding No. 2: Employee Benefit Expenditure Procedures

Condition: Certain employee benefit expenditures were not properly computed and certain others were not allocated to an appropriate general ledger account.

Recommendation: Employee benefits should be paid at the correct rate and charged to the appropriate general ledger account.

Current Status: The recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the audit for the year ended June 30, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS—Continued

Fiscal 2005 Finding No. 3: Maintenance of Payroll Records Procedures

Condition: Certain payroll journals and distribution ledgers were not able to be located.

Recommendation: Documentation supporting payroll transactions should be maintained for the required minimum amount of time.

Current Status: The recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the audit for the year ended June 30, 2006.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings reported in relation to major federal award programs.

REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink, appearing to read "John Fazer", written in a cursive style.

John Fazer
Superintendent

CORRECTIVE ACTION PLAN

August 18, 2006

Michigan Department of Education
Lansing, Michigan

Holton Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Accounting Department Segregation of Duties

Recommendation: Segregation of duties in the accounting department should be strengthened.

Action Taken: The School District has limited opportunities to further segregate within the cash receipts and cash disbursements functions. This condition is primarily due to limited staff in this smaller school district and very limited resources to hire additional staff. During the year ending June 30, 2007, School District management will review opportunities to further segregate duties.

Michigan Department of Education
August 18, 2006
Page 2

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings reported in relation to major federal award programs.

REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call John Fazer at (231) 821-1700.

Sincerely,

A handwritten signature in black ink that reads "John Fazer". The signature is written in a cursive, flowing style.

John Fazer
Superintendent

FORM **SF-SAC**
(5-2004)U.S. DEPT. OF COMM.—Econ. and Stat. Admin.—U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**RETURN
TO****Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132****PART I****GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**Month Day Year
06 / 30 / 2006Fiscal Period End Dates Must
Be In 2004, 2005, or 2006**2. Type of Circular A-133 audit**1 ☒ Single audit 2 ☐ Program-specific audit**3. Audit period covered**1 ☒ Annual 2 ☐ Biennial 3 ☐ Other - Months**4. FEDERAL
GOVERNMENT
USE ONLY**Date received by
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)****3 8 - 6 0 0 2 9 3 8****b. Are multiple EINs covered in this report?** 1 ☐ Yes 2 ☒ No**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c
on the continuation sheet on Page 4.****d. Data Universal Numbering System (DUNS) Number** - - **e. Are multiple DUNS covered in this report?** 1 ☐ Yes 2 ☒ No**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f
on the continuation sheet on Page 4.****6. AUDITEE INFORMATION****a. Auditee name****HOLTON PUBLIC SCHOOLS****b. Auditee address (Number and street)****P.O. BOX 159**

City

HOLTON

State

MI

ZIP + 4 Code

4 9 4 2 5 -**c. Auditee contact**

Name


JOHN FAZER

Title

SUPERINTENDENT**d. Auditee contact telephone****(231) 821 - 1700****e. Auditee contact FAX****() -****f. Auditee contact E-mail**

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official

Date
Month Day Year
8 / 18 / 06

Printed Name of certifying official

JOHN FAZER

Printed Title of certifying official

SUPERINTENDENT**7. AUDITOR INFORMATION (To be completed by auditor)****a. Auditor name****BRICKLEY DELONG, PLC****b. Auditor address (Number and street)****316 MORRIS AVE., SUITE 500**

City

MUSKEGON

State

MI

ZIP + 4 Code

4 9 4 4 0 -**c. Auditor contact**

Name

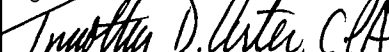
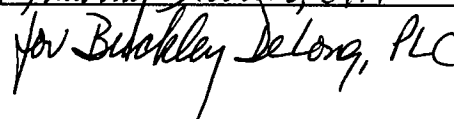
TIMOTHY D. ARTER

Title

PARTNER**d. Auditor contact telephone****(231) 726 - 3157****e. Auditor contact FAX****(231) 722 - 0260****f. Auditor contact E-mail****TARTER@BRICKLEYDELONG.COM**

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor

Date
Month Day Year
8 / 18 / 06

PART II**FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report

Mark either:

1 ☒ Unqualified opinion **OR**any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report?

1 ☐ Yes 2 ☒ No

3. Is a reportable condition disclosed?

1 ☒ Yes 2 ☐ No - *SKIP to Item 5*

4. Is any reportable condition reported as a material weakness?

1 ☐ Yes 2 ☒ No

5. Is a material noncompliance disclosed?

1 ☐ Yes 2 ☒ No**PART III****FEDERAL PROGRAMS (To be completed by auditor)**

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)

1 ☐ Yes 2 ☒ No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))

\$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530)

1 ☒ Yes 2 ☐ No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1))

1 ☐ Yes 2 ☒ No - *SKIP to Item 6*

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1))

1 ☐ Yes 2 ☐ No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4))

1 ☐ Yes 2 ☒ No7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b))1 ☐ Yes 2 ☒ No8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)98 ☐ U.S. Agency for International Development83 ☐ Federal Emergency Management Agency43 ☐ National Aeronautics and Space Administration96 ☐ Social Security Administration10 ☐ Agriculture39 ☐ General Services Administration89 ☐ National Archives and Records Administration19 ☐ U.S. Department of State23 ☐ Appalachian Regional Commission93 ☐ Health and Human Services05 ☐ National Endowment for the Arts20 ☐ Transportation11 ☐ Commerce97 ☐ Homeland Security06 ☐ National Endowment for the Humanities21 ☐ Treasury94 ☐ Corporation for National and Community Service14 ☐ Housing and Urban Development06 ☐ National Endowment for the Humanities82 ☐ United States Information Agency12 ☐ Defense03 ☐ Institute of Museum and Library Services47 ☐ National Science Foundation64 ☐ Veterans Affairs84 ☐ Education15 ☐ Interior07 ☐ Office of National Drug Control Policy00 ☒ None81 ☐ Energy16 ☐ Justice07 ☐ Office of National Drug Control Policy☐ Other - Specify:66 ☐ Environmental Protection Agency09 ☐ Legal Services Corporation59 ☐ Small Business Administration

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ☒
- and, if not marked above, the Federal cognizant agency ☐

Count total number of boxes marked above and submit this number of reporting packages

1

PART III FEDERAL PROGRAMS - Continued**9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		If yes, type of audit report (h)	10. AUDIT FINDINGS	
Federal Agency Prefix ¹ (a)	Extension ² (b)					1	2		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
8 4	010	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I	\$ 280,549.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U			N/A
8 4	298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V	\$ 5,894.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
8 4	318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TECHNOLOGY LITERACY CHALLENGE	\$ 6,909.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
8 4	367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IMPROVING TEACHER QUALITY	\$ 75,752.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
8 4	186	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DRUG FREE SCHOOLS AND COMMUNITIES	\$ 7,519.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
8 4	027	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PL 101-476 FLOWTHROUGH	\$ 14,491.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
1 0	550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMODITIES	\$ 22,333.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
1 0	553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER	\$ 46,395.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
1 0	555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER	\$ 191,490.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
9 3	778	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	MEDICAL ASSISTANCE PROGRAM TITLE XIX	\$ 6,225.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No				N/A
TOTAL FEDERAL AWARDS EXPENDED				\$ 661,550.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS					

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
 N/A for NONE

E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds

I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance

L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART III FEDERAL PROGRAMS - Continued**9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		If yes, type of audit report (h)	10. AUDIT FINDINGS	
Federal Agency Prefix 1 (a)	Extension 2 (b)					1	2		Type(s) of compliance requirement(s) (a)	Audit finding reference number(s) (b)
9	7 .004	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	2003 STATE HOMELAND SECURITY GRANT, PART II EQUIPMENT	\$ 3,993 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A
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PART I

Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

f. List the multiple DUNS covered in the report.

[illegible]

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2006

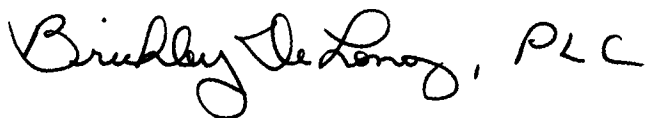
Board of Education
Holton Public Schools
Holton, Michigan

In planning and performing our audit of the financial statements of Holton Public Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Holton Public Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITIONS

Recommendation 1: Segregation of duties in the accounting department should be strengthened.

Although the small size of the School District's office staff limits the segregation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

One of the most critical areas of segregation is cash disbursements, in which we noted the business administrator prepares checks, signs checks with the use of MICR key signatures, records checks in the general ledger, and prepares the bank reconciliation. We also noted that a stamp in the superintendent's name was used to approve purchase orders and certain federal award applications.

The result is the danger that errors or the misappropriation of funds could occur and not be detected. We suggest that the superintendent keep custody of the MICR keys. The superintendent should also review cancelled checks before the bookkeeper prepares the reconciliation.

In the cash receipts function, we noted the same person records payments received in the general ledger and prepares the deposit. Someone independent of recording payments should prepare the bank deposit and reconcile to the listing of payments recorded.